CORPORATE INVESTMENT: GROWTH IN 2002-03 AND PROSPECTS FOR 2003-04*

Introduction

Capital investment is essential for modernisation of productive capacity and adding new capacity for current and future industrial growth. The objective of the article is to make an assessment of capital investment in the private corporate sector based on the data on phasing details of projects sanctioned assistance by the major term-lending institutions and the commercial banks#. The purpose of the study is to capture the likely growth of corporate investment, which would provide important insights into the business expectations about the performance of economy in general, and the infrastructure and manufacturing sectors in particular. The approach adopted here, is based on the methodology of projection of corporate investment, developed by Dr. C. Rangarajan in an article captioned "Forecasting Capital Expenditure in the Corporate Sector" published in the December 13, 1970 issue of the 'Economic and Political Weekly'.

Methodology

The method of estimating growth in corporate investment should, ideally, be based on the available sources of financing an investment project. The bulk of the major projects in the private corporate sector is financed by the leading all India term-lending institutions, namely the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Investment Bank of India (IIBI), ICICI Ltd. (now ICICI Bank) and the Infrastructure Development Finance Company (IDFC). The financial sector reforms in the 1990's have, in effect, enlarged the sources of financing corporate projects; in particular, commercial banks have, in recent years, started providing financial assistance to corporate projects. Since a majority of the private corporate entities, undertaking large projects, approach the term-lending institutions and banks for financing the project cost, the phasing details of capital expenditure available in the relevant project reports would provide a base for estimating likely growth in capital expenditure.

Assumptions and Limitations

The estimation of the growth in capital investment attempted in this study is based on the assumption that most of the companies in the private corporate sector approach the term-lending institutions and commercial banks for financing their projects. The cost of the projects assisted by term-lending institutions and commercial banks, by and large reflect the trends in the capital investment of the private corporate sector.

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The previous study 'Corporate Investment in 2001-02: An Attempt at Projection' was published in the November 2001 issue of the RBI Bulletin.

Some companies may raise resources exclusively from capital market to undertake large projects, without seeking any assistance from the term-lending institutions. It is difficult to get the phasing details of capital expenditure from the prospectus issued by such companies. At the same time, there is no reliable information on the end-use of funds raised from the markets. In view of these limitations, such projects get excluded from the purview of the study.

Growth of Corporate Investment in 2002-03

The estimated growth of corporate investment in the year 2002-03 is solely based on the envisaged time phasing of the capital expenditure of assisted corporate projects. For this purpose, all the corporate projects, which have been sanctioned financial assistance, by the financial institutions/ banks, in 2002-03 and in the previous years were considered. By aggregating the data on the time phasing of capital expenditure over the individual years, it should be possible to work out the growth in the investment that might have been made in 2002-03.

Accordingly, for the current study, data on the phasing of capital expenditure on projects sanctioned by the term-lending financial institutions and the commercial banks during 2002-03 and in earlier years were suitably aggregated. Where a company approached more than one institution for project assistance, care was taken to avoid duplication in the compilation. Efforts were made to incorporate the revisions in the phasing of projects sanctioned earlier, to the extent feasible. The data consolidated on these lines, are presented in Table 1. When horizontally read, it shows the capital expenditure that is expected to be incurred in various years on projects for which financial assistance was sanctioned in a given year. Vertically read, it shows the capital expenditure that is expected to be incurred in a year on projects which were assisted in that year and in previous years.

Apart from the project expenditure, the companies also report normal capital expenditure likely to be incurred in subsequent years. These expenditures are added to the project expenditure so as to obtain total capital expenditure planned by the private corporate sector.

Project expenditure during 2002-03

The details of phasing of capital expenditure in each of the years 1992-93 to 2003-04 in respect of assisted corporate projects are presented in Table 1.

Capital expenditure of Rs.30,201 crore was expected to have been incurred during 2002-03 in respect of the projects sanctioned up to 2001-02. The project proposals sanctioned assistance during 2002-03 envisaged capital expenditure of Rs.6,953 crore in 2002-03. Thus, the total capital expenditure that might have been incurred during 2002-03, amounted to Rs. 37,154 crore (col. 12, Table 1). Further, a few projects sanctioned assistance in 2002-03, were found to have planned capital expenditure to the tune of Rs 680 crore in 2001-02. Thus the total capital expenditure which might have been incurred during 2001-02, works out to Rs 40,887 crore. Therefore, the capital expenditure planned by the private corporate sector during 2002-03 showed a decline of 9.1 per cent as compared with the fall of 23.6 per cent in 2001-02.

TABLE 1 : PHASING OF CAPITAL EXPENDITURE OF PROJECTS SANCTIONED ASSISTANCE BY TERM LENDING INSTITUTIONS/COMMERCIAL BANKS

(Rs. Crore)

Year of sanction	Capital Expenditure in											
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Upto March 1993	25,197	18,422	6,748	5,728	3,526	3,254	1,949	1,071				
1993-94	1,121	13,319	13,714	6,943	1,885	708	564	752	762	591		
1994-95		837	18,261	20,776	12,760	5,874	1,115	441	456	400	328	
1995-96		10	2,519	26,531	24,442	12,590	3,971	892	770	782	677	599
1996-97			69	2,326	21,917	20,044	8,592	2,800	588	618	617	594
1997-98			8	1,165	4,437	21,359	19,122	10,111	3,833	1,148	889	703
1998-99		313	414	657	1,408	6,415	23,321	18,622	10,248	3,340	1,545	1,701
1999-00				2	13	256	8,286	11,971	12,246	7,493	5,603	695
2000-01					22	32	36	5,694	17,788	17,451	14,156	6,641
2001-02							62	266	6604	8,384	6,386	1,990
2002-03							5	30	96	680	6,953	6,595
Grand Total #	**26,777**	**33,362**	**41,948**	**64,319**	**70,691**	**70,724**	**67,131**	**52,730**	**53,491**	**40,887**	**37,154**	**19,518**
Per cent change	**34.7**	**24.6**	**25.7**	**53.3**	**9.9**	**0.0**	**-5.1**	**-21.4**	**1.4**	**-23.6**	**-9.1**	

#: a) Includes assistance provided by the IDBI under Bills Rediscounting Scheme and Technical Development Fund Scheme.

b) The estimates of Corporate Investment are *ex ante* and differ in scope and methodology from the *ex post* estimates of corporate fixed investment as available in National Accounts Statistics (NAS). See also the technical note attached to "Growth of Corporate Investment: An attempt at projection for 1999-2000" published in the Monsoon 1999 issue of the Reserve Bank of India Occasional Papers for details.

Projects sanctioned during 2002-03

This study covers 253 corporate projects assisted by term-lending institutions and commercial banks, during 2002-03 and their aggregate cost amounted to Rs.18,736 crore, spread over nine year period spanning 1998-99 to 2006-07. In 2001-02, 210 projects were covered and had an aggregate cost of projects at Rs.24,656 crore (Table 2). The normal capital expenditure of the 253 projects amounted to Rs.83 crore phased out over the period of five years from 2002-03 to 2006-07. The total fixed capital expenditure of these projects amounted to Rs.18,819 crore. The phasing details of the projects sanctioned during 2002-03, showed that 36.9 per cent of the total fixed capital expenditure amounting to Rs. 6,953 crore was planned to be incurred in the year of sanction and another 35.0 per cent (Rs.6,595 crore) in the following year 2003-04. The share of capital expenditure in the year preceding the year of sanction was very small at 3.6 per cent; the phasing pattern of these projects, in this respect, is somewhat different from that of the projects sanctioned assistance in 2001-02.

Industrial pattern of projects

The industrial classification of projects adopted for this study is based on the industrial activity as indicated in the project reports. Infrastructure projects accounted for a substantial share of 55.3 per cent in the aggregate cost of projects in 2002-03; the share was higher when compared with that of 43.0 per cent in 2001-02 (Table 3). The share of telecom sector halved to 10.6 per cent in 2002-03, compared with 21.4 per cent in 2001-02, whereas that of roads, ports, storage and rail

TABLE 2 : PHASED PROJECT AND NORMAL CAPITAL EXPENDITURE OF PROJECTS SANCTIONED IN 2001-02 AND 2002-03

(Rs. crore)

Project expenditure	1998-99 to 1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
I : 2001-02	**Number of projects: 210**								
i) Phased capital exp.	329 (1.3)	6,588 (26.7)	8,296 (33.6)	6,284 (25.5)	1,904 (7.7)	1,234 (5.0)	22 (0.1)	-- --	24,656 (100.0)
ii) Normal capital exp.	--	16	88	102	86	85	93	24	493
Total	**329 (1.3)**	**6,604 (26.3)**	**8,384 (33.3)**	**6,386 (25.4)**	**1,990 (7.9)**	**1,318 (5.2)**	**115 (0.5)**	**24 (0.1)**	**25,149 (100.0)**
II : 2002-03	**Number of projects: 253**								
i) Phased capital exp.	35 (0.2)	96 (0.5)	680 (3.6)	6,924 (37.0)	6,584 (35.1)	2,245 (12.0)	1,155 (6.2)	1,016 (5.4)	18,736 (100.0)
ii) Normal capital exp.	--	--	--	30	11	14	18	11	83
Total	**35 (0.2)**	**96 (0.5)**	**680 (3.6)**	**6,953 (36.9)**	**6,595 (35.0)**	**2,259 (12.0)**	**1,174 (6.2)**	**1,027 (5.5)**	**18,819 (100.0)**

Note : Figures in brackets denote percentage shares in the total.
-- : Nil / Negligible.

line sector increased to 19.8 per cent in 2002-03 from 14.6 per cent in the previous year. Power sector projects had a significantly higher share at 24.9 per cent as against 7.0 per cent observed in 2001-02.

The share of engineering industry in the aggregate cost of projects substantially declined to 2.9 per cent in 2002-03 from 25.9 per cent in 2001-02. Project cost of the chemical industry accounted for 5.8 per cent of the aggregate cost of projects in 2002-03 (3.9 per cent in 2001-02). The three major industry groups, *viz.*, infrastructure, engineering and chemicals together accounted for 64.0 per cent of the total cost of projects in 2002-03 as compared with 72.8 per cent in

Chart 1 : Share of Major Industries in Aggregate Cost of Projects

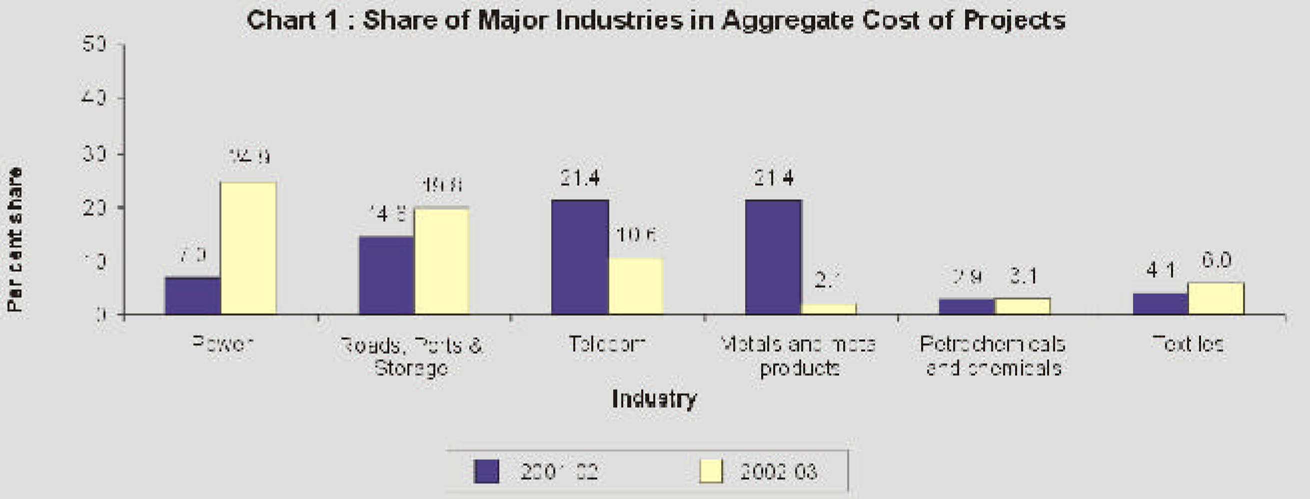


TABLE 3 : INDUSTRY-WISE DISTRIBUTION OF PROJECTS AND THEIR COST, 2001-02 AND 2002-03

Industry	2001-02			2002-03		
	Number of Projects	Project cost		Number of Projects	Project cost	
		Amount (Rs. crore)	Per cent share		Amount (Rs. crore)	Per cent share
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Infrastructure (i + ii + iii)	**28**	**10,590**	**43.0**	**47**	**10,360**	**55.3**
i) Power	11	1,731	7.0	22	4,673	24.9
ii) Telecom	3	5,266	21.4	3	1,981	10.6
iii) Roads, ports, storage and rail lines	14	3,593	14.6	22	3,705	19.8
2. Engineering (i + ii + iii + iv)	**26**	**6,387**	**25.9**	**26**	**550**	**2.9**
i) Metals and metal products	15	5,265	21.4	18	401	2.1
ii) Automobiles and auto- ancillaries	9	1,060	4.3	4	78	0.4
iii) Electrical equipments	2	61	0.2	3	50	0.3
iv) Non-electrical machinery	--	--	--	1	22	0.1
3. Chemicals (i + ii)	**18**	**961**	**3.9**	**28**	**1,086**	**5.8**
i) Petrochemicals and chemicals	15	725	2.9	10	573	3.1
ii) Pharmaceuticals and drugs	3	237	1.0	18	512	2.7
4. Cement	5	519	2.1	3	415	2.2
5. Textiles (other than jute)	44	999	4.1	40	1,133	6.0
6. Sugar	6	248	1.0	3	255	1.4
7. Paper and paper products	6	388	1.6	9	291	1.6
8. Electronics	2	368	1.5	--	--	--
9. Hotels and restaurants	12	970	3.9	10	502	2.7
10. Construction	11	555	2.3	9	781	4.2
11. Services (Transport, Hospitals and others)	7	953	3.9	20	1,406	7.5
12. Food products	9	172	0.7	21	466	2.5
13. Information technology	6	486	2.0	7	534	2.8
14. Others*	30	1060	4.3	30	957	5.1
Total	**210**	**24,656**	**100.0**	**253**	**18,736**	**100.0**

* Comprise industries, each with a share of less than 1 per cent in total cost of projects in 2001-02 and 2002-03.

-- : Nil / Negligible.

the previous year. Other industries, which accounted for 2 per cent to 8 per cent of the total cost of the projects in 2002-03, were services (hospitals, transport and others) (7.5 per cent), textiles (6.0 per cent), construction (4.2 per cent), information technology (2.8 per cent), hotels & restaurants (2.7 per cent), food products (2.5 per cent) and cement (2.2 per cent).

Size-wise pattern of projects

Very large projects, each with a project cost of Rs.100 crore and above, numbering 38 accounted for 68.1 per cent of the total cost of projects in 2002-03 (Table 4). The aggregate cost of these projects worked out to Rs.12,767 crore. In 2001-02, 43 such projects (aggregate cost of Rs. 20,497 crore) accounted for 83.1 per cent of total cost of all projects.

TABLE 4 : SIZE-WISE DISTRIBUTION OF PROJECTS AND THEIR COST, 2001-02 AND 2002-03

Size of Projects (Rs.crore)	2001-02			2002-03		
	Number of Projects	Project cost		Number of Projects	Project cost	
		Amount (Rs. crore)	Per cent share		Amount (Rs. crore)	Per cent share
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Less than 5.0	17	55	0.2	7	24	0.1
2. 5.0 - 7.5	9	52	0.2	5	28	0.1
3. 7.5 - 10.0	11	96	0.4	9	79	0.4
4. 10.0 - 15.0	32	381	1.5	50	623	3.3
5. 15.0 - 20.0	26	444	1.8	35	575	3.1
6. 20.0 - 50.0	50	1,662	6.7	73	2,123	11.3
7. 50.0 - 100.0	22	1,469	6.0	36	2,517	13.4
8. 100.0 & above	43	20,497	83.1	38	12,767	68.1
Total	**210**	**24,656**	**100.0**	**253**	**18,736**	**100.0**

State-wise pattern of projects

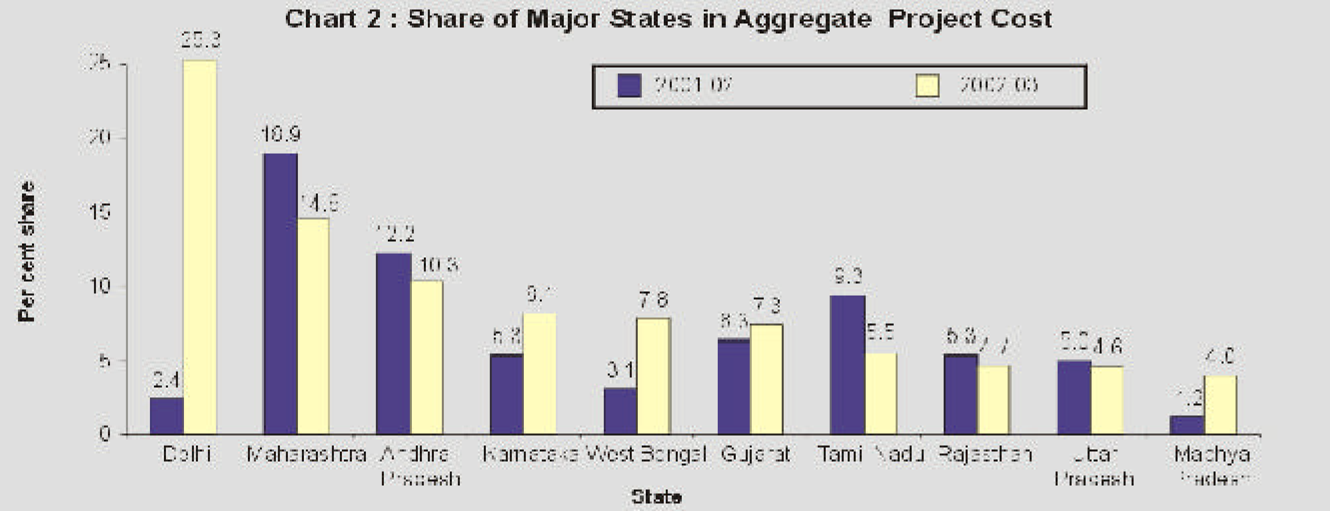
The state-wise classification of projects is based on the location of the projects as stated in the project reports. There were 4 projects that are located in more than one state (presented in the category multi-state projects), accounting for less than one per cent of the aggregate project cost in 2002-03; in 2001-02, the share of such projects was very high at 22.4 per cent (Table 5). State-wise, Delhi occupied the top position with an aggregate cost of projects at Rs. 4,736 crore accounting for 25.3 per cent of the total cost of projects in 2002-03 followed by Maharashtra (14.6 per cent), Andhra Pradesh (10.3 per cent), Karnataka (8.1 per cent), West Bengal (7.8 per cent) and Gujarat (7.3 per cent) (Chart 2).

TABLE 5 : STATE-WISE DISTRIBUTION OF PROJECTS AND THEIR COST, 2001-02 AND 2002-03

State / Union Territory	2001-02			2002-03		
	Number of Projects	Project cost		Number of Projects	Project cost	
		Amount (Rs. Crore)	Per cent share		Amount (Rs. Crore)	Per cent share
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Andhra Pradesh	20	3,015	12.2	28	1,937	10.3
2. Delhi	9	602	2.4	18	4,736	25.3
3. Gujarat	12	1,552	6.3	27	1,360	7.3
4. Karnataka	13	1,303	5.3	16	1,523	8.1
5. Kerala	4	401	1.6	4	107	0.6
6. Madhya Pradesh	4	302	1.2	7	744	4.0
7. Maharashtra	46	4,665	18.9	37	2,742	14.6
8. Punjab	4	178	0.7	2	251	1.3
9. Rajasthan	7	1,305	5.3	10	879	4.7
10. Tamil Nadu	41	2,289	9.3	35	1,037	5.5
11. Uttar Pradesh	13	1,221	5.0	18	855	4.6
12. West Bengal	10	773	3.1	15	1,457	7.8
13. Multiple States	*4*	*5,518*	*22.4*	*4*	*135*	*0.7*
14. Others*	23	1,533	10.3	32	972	5.2
Total	**210**	**24,656**	**100.0**	**253**	**18,736**	**100.0**

* Comprise states/ union territories, each with share of less than 1 per cent in aggregate cost of projects in 2001-02 and 2002-03.

Chart 2 : Share of Major States in Aggregate Project Cost



Purpose-wise pattern of projects

New projects, numbering 114, with a total cost of projects at Rs.10,487 crore, accounted for 56.0 per cent of the aggregate cost of projects in 2002-03 as against 74 such projects with a share of 59.8 per cent in 2001-02 (Chart 3).

The share of 72 projects for expansion (Rs.2,960 crore) was at 15.8 per cent in 2002-03 as compared with 66 such projects accounting for 18.9 per cent in the previous year.

Assessment and prospects:

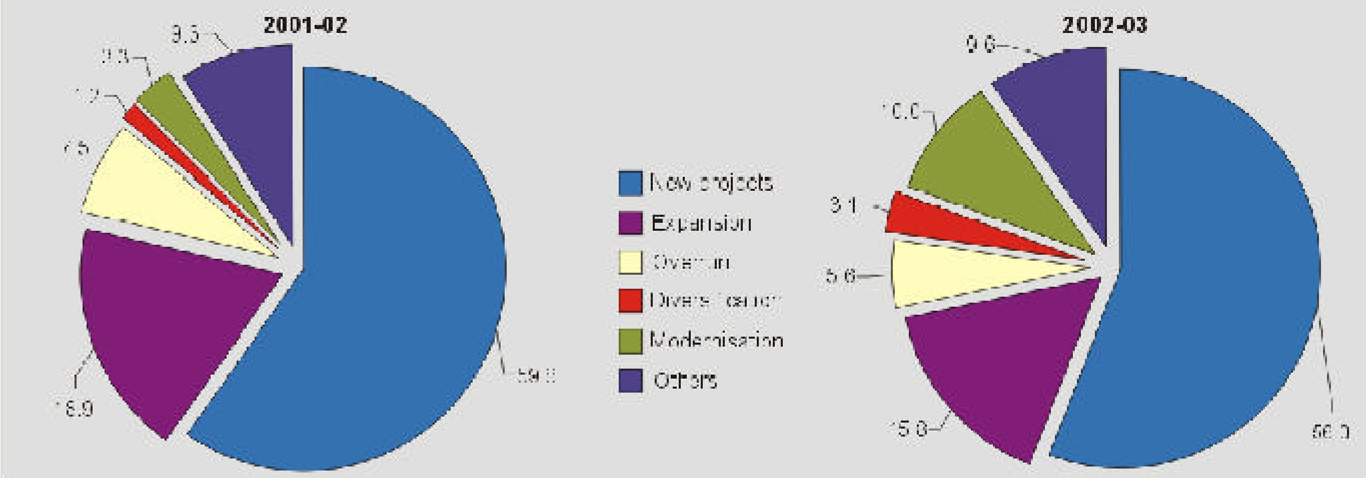
Assessment of 2002-03

The Indian economy performed well in 2002-03, although significantly lower than expected. The Electricity Bill, 2003, which seeks to delicense power generation and to permit captive power plants, was approved by Parliament in 2003. In the telecommunications sector, policies for opening up of international long-distance telephony, setting up Universal

TABLE 6 : PURPOSE-WISE DISTRIBUTION OF PROJECTS AND THEIR COST, 2001-02 AND 2002-03

Purpose	2001-02			2002-03		
	Number of Projects	Project cost		Number of Projects	Project cost	
		Amount (Rs. Crore)	Per cent share		Amount (Rs. Crore)	Per cent share
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. New projects	74	14,736	59.8	114	10,487	56.0
2. Expansion	66	4,658	18.9	72	2,960	15.8
3. Overrun	12	1,856	7.5	4	1,049	5.6
4. Diversification	7	302	1.2	9	574	3.1
5. Modernisation	27	822	3.3	24	1,869	10.0
6. Others	24	2,282	9.3	30	1,797	9.6
Total	**210**	**24,656**	**100.0**	**253**	**18,736**	**100.0**

Chart 3 : Purpose-wise Distribution of Aggregate Cost of Projects



Service Obligation, permitting a fourth operator in the cellular mobile segment and commissioning of internet backbone were put in place. In the road sector, private parties were allowed to apply for tenders either singly or through a consortium restricted to four members. The Ministry of Road and Surface Transport has short-listed 23 build, operate and transfer (BOT) projects under this new bidding process. The impact of these initiatives was visible in projects sanctioned assistance in 2002-03, as 22 projects with a share of 19.8 per cent of the aggregate cost of all projects were from roads, ports, storage and rail lines segment. Though such positive signals were able to arrest the fall in corporate investment in the year 2002-03, they could not revert the downtrend. The fall in capital expenditure to the extent of 9.1 per cent in 2002-03 was much lower than the fall of 23.6 per cent in 2001-02. Moreover, big projects whose phasing generally results in sizeable capital expenditure in the years succeeding the year of sanction, were very few in 2001-02 and 2002-03. Further, the total project expenditure of all the projects sanctioned assistance in 2002-03 amounted to Rs.18,819 crore as against Rs.25,149 crore sanctioned in 2001-02. Accordingly, the total capital expenditure expected in 2002-03 including that of projects sanctioned assistance in all the prior years, amounts to Rs.37,154 crore, indicating a decline over that in the previous year.

Prospects for 2003-04

The year 2003-04 has, so far, been very encouraging with good monsoon brightening the prospects for agriculture. The industrial growth has also been very good mainly due to the strong rise in manufacturing output. The outlook for the industrial sector is expected to be strengthened by renewal of agricultural activity. This is further supported by the low interest regime and improved all round corporate profitability. As an effect of all these positive signals, business confidence has been very optimistic. However, due to the lack of large projects in the last two years, the investment planned for 2003-04 based on projects, which have been sanctioned financial assistance in the years prior to 2003-04, amounted to just Rs.19,518 crore. To work out the aggregate capital expenditure in 2003-04, we must add to this the capital expenditure in 2003-04 on projects sanctioned assistance in that year. Therefore, if the aggregate capital expenditure in 2003-04 has to show growth over that in 2002-03 (*i.e.* Rs.37,154 crore), the capital expenditure in 2003-04 on projects likely to be sanctioned in 2003-04 must be above Rs.17,636 crore. Although, the climate for fixed capital investment appears to be conducive and also the business confidence is positive, such a high amount of investment in 2003-04 on new projects sanctioned assistance seems to be very unlikely. Thus the year 2003-04 may also witness a fall in corporate investment when compared to that in 2002-03.